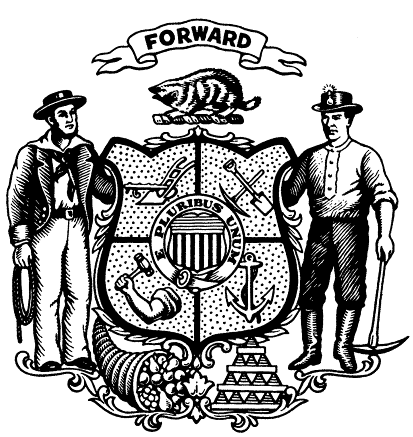
Reviewing and Resolving Audit Reports

A Guide for Reviewing and Resolving Audits Performed in Accordance with the Provider Agency Audit Guide



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1) Introduction

a) *Why providers need to have audits*

Agencies have audits for a number of reasons:

State and federal law **–** State and federal law require audits for certain providers. State law requires agencies which receive more than $25,000 in department funding to have audits that meet department standards unless the audit is waived by the department. Agencies might receive department funding directly from the department or through another agency, such as a county.

The department is trying to increase the threshold for requiring an audit to $50,000. However, the change did not get through this session of the legislature, and it appears we will have to wait until 2001 to try again. In the meantime, we are encouraging waiving audits on a case by case basis when audits are not cost effective and when the granting agency has sufficient alternate monitoring methods.

Federal law requires nonprofits, local governments, and states which spend more than $300,000 in federal awards to have audits in accordance with OMB Circular A-133.

Contract requirement – Providers can be required to have audits by contract, even when the audit isn't required by law. A granting agency might require an audit when it considers the situation to be particularly risky – they haven't done business with the provider before or there were significant concerns about previous business with the provider. Caution is needed though: audit can be very expensive in relation to the contract amount for small contracts.

Good business practice – Many people consider audits to be good business practice, so many agencies will have audits whether or not the granting agency requires one. The department does not want to discourage good business practice, so the cost of audit is allowable for reimbursement from department programs whether or not it is required by law or by contract.

Other parties **–** Other outside agencies, such as United Way or lending institutions, might require an audit.

b) Goals of the audit process

Two important goals of audit are to obtaining independent assessment of performance and improving operations.

In an audit, an independent person assesses a provider's performance in meeting objectives targeted for review in the audit. These objectives include:

- Maintaining sound financial condition.
- Maintaining sound internal controls.
- Complying with laws and regulations.
- Complying with the "strings" attached to government funding.
- Achieving performance objectives for use of government funding.

In addition, audits often identity areas where improvement is needed. This is the key to the usefulness of the audit – finding those areas where a provider needs to make improvement, and then ensuring that the provider makes those improvements.

c) Limitations of audit

Audits have a number of inherent limitations:

Not absolute assurance – Audits do not provide absolute assurance that there are no problems. Auditors perform their testing on a sample basis. Since auditors do not look at every transaction, there could be problems that they don't find. In addition, the provider's management can intentionally hide things from auditors.

Audit is past-oriented – An audit looks at the prior period, so it does not tell you about the present or future.

Not an end in itself – Audit should not be the only monitoring effort. Audit reports are not available for up to 18 to 21 months after the beginning of the contract period. That's simply too long for an provider to go without oversight – so the contract administrator has a key role in monitoring the provider throughout the contract period.

Goals of audit will be met only if audit results are used – Providers and granting agencies should use audit results to improve operations. Examples include:

- Provider makes corrective action to fix a problem that the auditor found.
- Granting agency encourages provider to take corrective action through the audit resolution process.
- Granting agency takes audit results into account when choosing monitoring efforts or when writing future contracts with the provider.

2) The granting agency's role in audits

Federal and state funding comes with a number of "strings" concerning a granting agency's responsibilities when it subcontracts federal or state funding. The federal requirements are detailed in OMB Circular A-133, and a portion of these federal requirements is excerpted in Appendix B of this document. The federal requirements and the state's requirements are also summarized in this section.

a) Decide whether audit is needed and what kind of audit

- *Wisconsin Statute* – Wis. Stat. 46.036 indicates that providers are required to have audits if they received more than $25,000 in department funds for the purchase of care and services, unless the audit is waived by the department. The department must approve all waivers of audits of providers. Granting agencies can use the risk based approach in the 1999 revision to the *Provider Agency Audit Guide* (online at www.dhfs.state.wi.us/grants) to determine whether an audit is needed and if so, the minimum type of audit that will meet its needs: agreed-upon procedures, program audit, or agency-wide audit.
- *Federal law* – Federal law requires agencies to have audits in accordance with OMB Circular A-133 if they are nonprofit or government and if they expended more than $300,000 in federal awards. You cannot waive an audit that is required by federal law.

b) Have an audit tracking system

Granting agencies should have a system to track which providers need to have audits and whether these audits have been received, reviewed, and resolved.

c) Provide funding info through contracts or confirmations

Auditors need have information about the type of funding they are auditing in order to properly plan and perform the audit. Such information includes whether the program is federal or state funded and its identifying number. In addition granting agencies will often receive confirmation requests, where they are asked to confirm the amount of funding they provided to a provider. This is one of the tools the auditor uses to assess the reasonability of amounts recorded on a provider's books, and it is very important to respond to these requests in a timely manner.

d) Review and resolve audits

Granting agencies should review and resolve audit reports of their provider agencies to determine whether the audits met the applicable standards and whether issues disclosed in the audit reports affect the granting agency's programs. Reviewing and resolving audits are covered in more detail in Sections 3 and 4.

e) *Your auditor will test your process in your annual audit*

Auditors will look at the purchase of service function as part of performing a county's annual audit. An example of instructions to auditors on testing a county's purchase of service function is included in Appendix C. Granting agencies can use these instructions to self-assess their purchase of service function.

f) *How a state department resolves purchase of service findings in county audits*

Audits of counties frequently have findings about purchase of services, especially about collecting and reviewing audits. When a state department reviews these audit findings, it looks for certain things in the finding or in the management response:

- The county knows who owes it audit reports and whether those audit reports have been received.
- If audit reports are late, the county sends letters asking for the missing audit reports. When providers fail to send in audit reports after the county has made a reasonable effort to collect these audits, the county takes action such as withholding payments or discontinuing contracting.
- The county reviews the audit reports that they receive, and the county identifies and resolves any issues in the audit reports that affect its funding.

The department will request an explanation of what happened if it is not apparent from the auditor's write-up or the county's response. In addition, the department will consider requiring a detailed corrective action plan or taking a disallowance if it appears that the county does not have a good system in place to monitor and review audit reports of its providers.

3) Audit review/resolution

Granting agencies should review audit reports of their providers to answer three key questions: did the audit meet the applicable standards, are there any issues related to the granting agency's funding, and what needs to be done about these issues. Granting agencies should document their audit review and resolution activities. An audit review checklist serves a dual purpose of guiding a reviewer through the reviewing and resolving an audit and documenting those activities. An example of such as checklist is included in Appendix A.

a) Did the audit meet applicable standards?

Granting agencies can use Section A of the checklist in Appendix A assess whether the audit met the applicable standards. If an audit report has the appropriate report elements for a particular set of standards, the granting agency can assume the audit was performed in accordance with those standards.

First, determine what the minimum type of audit the provider needed to have. Under the *Provider Agency Audit Guide* (online at www.dhfs.state.wi.us/grants), the granting agency can use a risk assessment to determine the type of audit that best meets its monitoring needs: agreed-upon procedures, program audit, or agency-wide audit. The agency-wide audit is the default audit for situations where the granting agency did not specify a minimum type of audit.

The *Provider Agency Audit Guide* allows providers to have a more extensive audit than is required by the granting agency. For example, a granting agency may determine that a program audit is the minimum type of audit needed to meet its monitoring needs. Absent any other considerations, the provider will probably have just a program audit, since it will cost less than an agency-wide audit. However, in some situations, the provider and its auditor will determine that an agency-wide audit is the better alternative. Factors that go into such a decision can include audit requirements from other granting agencies, such a large number of programs that a program audit is not efficient, and good business practice where the provider wants to have an independent assessment of its overall operations.

The next step is to determine whether the provider needed to have an audit in accordance with OMB Circular A-133, based on what the granting agency knows about the provider. Audits need to be in accordance with A-133 if:

- The provider is a non-profit or government, and
- The provider expended $300,000 or more a year in federal awards.

Finally, determine whether the audit report contains the report elements required for the applicable audit type. The checklist included cross-references to examples of the respective report elements in the *Provider Agency Audit Guide*.

b) Are there issues that affect the granting agency's programs?

Section B of the checklist in Appendix A uses the "Schedule of Findings and Questioned Costs" to identify audit issues which need resolution. This schedule is a required report element for program and agency-wide audits. (Findings that result from agreed-upon procedures engagements are reported in the "Report on Results of Agreed-upon Procedures Engagement.")

Most audit issues from program and agency-wide audits will be summarized in this schedule, including reportable conditions, material weaknesses, material noncompliance, and doubt as to the provider's ability to continue as a going concern. However, the granting agency may request explanation or corrective action for any issue that it considers to have a potential adverse effect on the granting agency's clients or programs, whether directly or indirectly, and whether or not the issue is listed in the "Schedule of Findings and Questioned Costs." Examples of some of these other issues include:

- Poor financial condition.
- Related party transactions affecting government funding.
- Excess revenue or excessive profit.
- Audited cost information which the granting agency uses to settle contract.

c) What should the granting agency do about these issues?

The granting agency should resolve all audit issues affecting its programs, and Section C of the checklist in Appendix A can be used to document resolution of audit issues. The amount of attention the granting agency gives a particular issue will depend on the granting agency's assessment of the potential adverse effect on its clients and programs.

The granting agency has a great deal of flexibility when choosing how to resolve an audit issue. Guidance on some of the more perplexing audit issues is included in Section 4, and the following list includes some general options that a granting agency can consider:

⇒ Do nothing (i.e. issue is inconsequential).

⇒ Accept management's corrective action plan.

⇒ Require the provider give the granting agency a more detailed corrective action plan.

- ⇒ Alert program staff, so they can revise or increase monitoring efforts.
- ⇒ Perform a site visit to provide technical assistance, investigate an issue further, or to confirm corrective action.
- ⇒ Impose special reporting or other provision in the next contract.
- ⇒ Withhold payments until provider takes corrective action.
- ⇒ Discontinue contracting with the provider.
- ⇒ If audit issue indicates a systematic problem, expand technical assistance efforts for all agencies or refine audit guidance.
- ⇒ Any other action the county considers to be appropriate to protect its interests.

4) Guidance on resolving common audit issues

Some of the situations that frequently arise when reviewing audit reports include:

a) Inadequate audit work.
b) Repeat findings.
c) Excess revenue (profit or reserves in excess of allowable limits).
d) Poor financial condition.
e) Related party transactions.
f) Allocated costs or indirect cost charges.
g) Segregation of duties.

a) Inadequate audit work

The granting agency should follow up with the provider and the auditor if the audit report does not show that the audit was performed in accordance with the applicable standards. However, what appear to be "deficiencies" are often the result of misunderstanding or miscommunication. The granting agency should always give the auditor an opportunity to correct the problem or to explain the reasoning for what was done. In addition, the granting agency may supplement the desk review of the audit report with confirmation of the auditor's licensing status, review of the auditor's quality control review report, or review of the auditor's workpapers.

Resolving an audit standard issue:

- Make sure the audit report is complete – the report elements associated with government audit requirements are sometimes packaged separately.
- Ensure auditor knew what was expected – are the applicable audit standards listed in the contract between the county and the provider?
- Give auditors opportunity to explain why they did what they did.
- Require additional work to be done (maybe part of next audit).
- Let it go, with notice to provider and auditor that audit must meet applicable standards next year in order for provider to be in compliance with requirement to have audit that meets applicable standards and hold them to those requirements in the subsequent year.
- If the deficiency is significant and you do not reach agreement with the auditor on how to correct the deficiency, contact the Wisconsin Department of Regulation and Licensing at (608) 266-3816 and the Wisconsin Institute of Certified Public Accountants at (414) 785-0445. These organizations will determine whether the situation warrants further review and, if so, whether to take disciplinary action against the auditor.

b) *Repeat findings*

One of the primary goals of audit resolution is to fix the underlying problems that lead to audit findings. Some problems are not cost effective to fix, and both the provider and granting agency need to consider whether the resources needed to correct a problem are worth the benefit expected to result from fixing the problem. If the matter is something that needs to be fixed and the provider doesn't fix it, the granting agency may use disallowances as leverage to persuade the provider that it needs to take corrective action. The granting agency could also consider addition special provisions to the next contract, implementing additional monitoring efforts, or discontinuing contracting with the provider.

c) Excess revenue

The *Allowable Cost Policy Manual* (online at www.dhfs.state.wi.us/grants) restricts the amount of profit that a for-profit agency can earn. The ACPM also restricts the circumstances under which a not-for-profit can retain a reserve and the amount of the reserve: not-for-profits can earn a reserve only on rate-based contracts, and the reserve amount is based on income paid under the rate-based contract.

Identifying an excess revenue issue:

- Determine whether an provider is a for-profit or a not-for-profit agency by looking at the financial statements. A for-profit will have stockholder's equity on the balance sheet, while a not-for-profit will have net assets. In addition, the first paragraph of the notes to the financial statements usually describes the type of agency.

- For provider that is *for-profit:*
  - The audit report includes a finding of noncompliance.
  - If questioned costs are noted but auditor didn't make adjustments, back questioned costs out and re-calculate profit to determine whether the increased profits are now excessive.
  - Check income statement for magnitude of overall profit.
  - Check supplemental schedules for profit being reported for programs receiving funds from the county, or profit for a specific grant.
  - Check types of expenses listed for programs receiving county funding – might need to back out unallowable items, which would increase profit.
  - If you calculate actual and allowable profit, consider using the profit calculator that can be found online at www.dhfs.state.wi.us/grants.

- For provider that is *not-for-profit:*
  - Confirm that contract(s) with provider are "rate-based" or "prospectively set." In such a contract, the provider and granting agency agree on a unit rate, and payments to the provider are based on the number of units of service provided. This prospectively set rate may be adjusted after-the-fact based on audited

allowable costs. An example is a contract with a group home for out-of-home care for children.
  - ➢ Check for a finding on excess revenue.
  - ➢ Check income statement for magnitude of overall net income.
  - ➢ Check reserve schedule.
  - ➢ Check types of expenses listed for programs receiving county funding – might need to back out unallowable items, which would increase profit.

- ❑ Decide whether to pursue the issue:
  - ➢ Overall amount of funds paid to the provider.
  - ➢ The amount of excess profit or reserves that either have been proved to exist, or could exist, based on available evidence that needs to be refined and verified.
  - ➢ Precedence, or longer range implications, of the decision.
  - ➢ Overall cost-benefit of pursuing collection of the excess profits or reserves.

Resolving an excess revenue issue:

- ❑ Require provider to refund the excess revenue.
- ❑ Withhold payment.
- ❑ Negotiate a lower rate for the upcoming period.
- ❑ Require the provider to invest the excess revenue into expanding or improving services.
- ❑ Amend future contracts with the provider to limit profit or reserves under the contract.

d) Poor financial condition

Poor financial position can jeopardize a provider's ability to fulfill contract obligations and to adequately manage department funds.

Identifying a poor financial condition issue:

- ❑ Provider may be reluctant to provide financial statements or to hire an audit.
- ❑ Audit states concerns about the provider's viability as a "going concern."
- ❑ Services are being reduced, check with the contract administrator.
- ❑ High turnover of personnel.
- ❑ Complaints of provider not paying bills in a timely manner.
- ❑ Negative cash in the assets section or bank overdrafts/letter of credit in the liabilities section.
- ❑ Poor financial ratios, i.e. cash ratio (cash divided by current accounts payable) or current ratio (current assets divided by current accounts payable), which indicate the provider's ability to pay its bills.
- ❑ Amount of payables has increased over prior years.
- ❑ Recurring losses.
- ❑ Provider wants to pick up check to get cash without waiting for the mail.

Determine whether it's a serious issue:

- Are current liabilities unusually large?
- Are the payables dominated by unpaid taxes?
- Did the provider need to reduce services or lay offs staff because they couldn't meet payroll?
- Is there another provider available to meet the needs?
- How large is the contract that the county/state has with the provider?
- Is it a short-term problem due to extenuating circumstances (sudden increase in fuel costs) or is it a long-term problem?
- Does the provider have alternate sources of revenue or are they dependent on government contracts?
- Are related party transactions draining cash from the provider?

Resolving a poor financial condition issue:

- Look at alternative providers. If the provider is unable to continue in operation, you don't want to be caught without the ability to provide services to your clients.
- Require the provider to prepare a plan for improving their financial condition. This will help to demonstrate that they know they have a problem and are working to correct the problem.
- Require the provider to find a "mentor," a similar non-profit in the local area that is successful to help show them ways they can improve their operations.
- Modify payment mechanism to a service provided basis or reimbursement without advances.
- Perform extra monitoring, including site visits.
- Terminate contract.

e) Related party transactions

A related party transaction occurs when one party to a transaction can influence the management or financial operating policies of the other party.

The *Allowable Cost Policy Manual* (online at www.dhfs.state.wi.us/grants) states that costs incurred as the result of a related party transaction will be considered allowable if the cost meets applicable allowability criteria and the provider follows procurement and sub-contracting policies and practices which meet minimum federal and department guidelines.

Once the cost is determined to be allowable these additional considerations apply:

- For an provider renting or leasing property from a related party, allowable costs are limited to actual costs that would have been allowed had title to the assets been vested with the provider. Examples of some of the allowable items that can be included in cost of ownership include interest, depreciation or usage allowance, maintenance costs, utilities and property taxes.

- Allowable costs are limited to the actual allowable costs incurred by the related party.

Identifying a related party transaction issue:

- The schedule of findings and questioned costs may identify if a problem exists.
- The notes to the financial statement should include a description of related party transactions if such transactions occurred.
- Other items listed in the notes may reference business with related parties that is not otherwise disclosed.
- Your own knowledge of the provider, its owner, and its board of directors and the individuals or other companies the provider does business with.

Resolving a related party transaction issue:

- If the audit identifies related party transactions and there is insufficient information to determine if a problem exists or not, ask the auditor to confirm that testing was done to verify the related party transaction met all federal and state procurement guidelines and the cost policies.
- If a problem exists that relates to procurement or allowability, ask the provider to develop a corrective action plan for complying with the procurement and allowable cost requirements.
- If the problem is that costs claimed exceeded the applicable cost principles, require the provider to return the amount in excess of allowable cost.

f) Allocated costs or indirect cost charges

The *Allowable Cost Policy Manual* (online at www.dhfs.state.wi.us/grants) stipulates that allocated and indirect costs can be charged to grants, but that these costs must meet certain standards in order to be considered allowable. Basically, allocated and indirect charges need to be supported by an up-to-date cost allocation plan which is actually used when making charges to grants, and which uses reasonable bases for allocating costs. If these principles are not followed, some programs may pay for more than their fair share of allocated and indirect costs.

Identifying a cost allocation or indirect cost issue:

- Check with contract monitoring staff to determine whether on-going monitoring of the contract expenses flagged any issue administrative cost or cost allocation issues that should be focused on during the review of a provider's audit.
- Check for a finding on cost allocation or indirect cost problems.

- ❑ Check the footnotes to the financial statements that describe the bases for making allocations. Sometimes you will find that the provider allocated costs among programs based on percentage of budgeted revenue, which is specifically prohibited by federal and state cost allocation requirements.
- ❑ Check allocations in the Schedule of Revenue and Expenses to determine whether allocations of costs appear to be reasonable. This is a step that might be warranted in higher risk circumstances. For example, a quick check of the schedule once showed that a DHFS grant had only 15 percent of a provider's salary costs, but almost 35 percent of rent charges. Although not always a dollar-for-dollar match, it seemed odd that such a mismatch of salary to rent costs would occur. We followed up to get an explanation.
- ❑ As part of checking the Schedule of Revenue and Expenses, determine the total amount administrative costs charged to the provider programs that the funding source helps pay for.
- ❑ Consider any specific funding source restrictions on the amount of overhead costs that can be allocated to a grant. For example, by law only10 percent of some grant funds can be used for administrative costs. (To ensure proper coordination, the audit reviewer should confirm whether contract monitoring staff are overseeing this issue throughout the contract period.)

Resolving a cost allocation or indirect cost issue:

- ❑ If the audit has a finding that a provider does not have an acceptable cost allocation plan, the audit reviewer could request a corrective action plan. The audit reviewer also could ask for and review a copy of the cost allocation plan once it is completed.
- ❑ If the audit does not have a finding, yet the schedules suggest some misallocations may have occurred, the audit reviewer could ask either: (a) the auditor to report on the nature and result of actual testing which was performed; or (b) the provider to provide a written description of the basis of allocations and why your grants appear to be paying a disproportionate share of certain shared costs.
- ❑ The audit reviewer could disallow any administrative costs that exceed a maximum amount that was allowed by contract to be charged to the funding source's grants. If an issue like this is pursued, a few thoughts to keep in mind:
    - If the excess administrative charges are not flagged by the auditor as a finding, the audit reviewer may want to include the step of asking the auditor why the excess charges were not flagged as a finding. There may be reasons that are worth considering.
    - The audit reviewer should be aware that "administrative costs" are defined in a variety of ways, so the reviewer's definition could be scrutinized and must therefore be reasonable.
- ❑ If the funding source is encountering difficulty in resolving a cost allocation and indirect cost issue due to a lack of follow-through by the provider, the funding source may consider withholding the portion of future payments related to administrative costs until such time as the provider has provided the necessary information and resolved the matter.

- The audit reviewer could reinforce with the auditor the type of information and audit testing the funding source is interested in seeing, especially if a cost allocation or indirect cost problems was not reported in the audit report.
- If getting to the bottom of the matter is important enough, the audit reviewer could go on-site and look at relevant agency records and confirm whether or not allocated and indirect costs are reasonable and documented.
- Finally, as a systems improvement, the audit reviewer could work with contract monitors to ensure that they are getting the information they need to monitor allocated and indirect costs, so that some of these issues are caught before the audit is submitted.

g) Segregation of duties

Segregation of duties is a fundamental internal control. Key duties and responsibilities should be divided or segregated among different people to reduce the risk of error or fraud. This should include separating responsibilities so that one person does not control all aspects of a transaction or event. An example is writing checks: an provider should have different people authorizing making payments, writing the checks, and reconciling the checkbook.

Many cases of fraud or misappropriation of funds in small agencies happen where one person is writing checks and handling the bank reconciliations. Small agencies can be devastated by these thefts, and they might not be able to continue to provide services or to ever recover financially.

However, many agencies do not have enough staff to be able to completely segregate these duties. In these cases, agencies should have *compensating controls* to make up for the weakness from being unable to segregate duties. One compensating control for checkwriting would be to have the executive director review supporting documentation and sign all checks. Another compensating control would be to have the bank send the bank statements directly to someone other than the checkwriter and have that person reconcile the provider's checking account records to the bank statement.

Identifying a segregation of duties issue:

Segregation of duties issues will appear in the auditor's report on compliance and internal controls if the auditor considered it to be a significant internal control weakness.

Resolving a segregation of duties issue:

The key to resolving a segregation of duties issue is to heighten awareness on this issue among providers and their auditors and to clearly signal that a provider can have good controls even it has a small number of staff. DHFS's practice is to send a letter to the provider asking it to describe its compensating controls.

Occasionally, a provider or auditor call us to say that this problem has existed for years and no one has ever asked about it before. Why are we asking about it now? In these cases, we spend some time talking with them about why we are concerned about compensating controls. In our experience, all agencies that we have followed up with have given us descriptions of the steps they take to mitigate weakness in this important internal control.

Additional reading:

- News articles on bookkeeper theft. Can you spot the internal control weaknesses? *If you printed this guide from the department's website, go to a search engine such as* www.google.com *and search using the terms "bookkeeper" and "theft."*

Appendix A – Audit Review Checklist

Name of Agency ____

Audit Period ____

Section A -- Audit Standards And Report Elements

1. **Determine the applicable audit standards for the type of agency and nature of funding:**
   - *Provider Agency Audit Guide* – *What* was the *minimum* type of audit required by the granting agency: agreed-upon procedures, program audit, or agency-wide audit?
   - OMB Circular A-133 – Did the agency need an A-133 audit? Yes, if the granting agency knows that the provider was a nonprofit or local government and that the provider expended more than $300,000 in federal awards as a recipient or sub-recipient.

2. **Determine whether the audit materials show that the audit met the applicable standards:**

Report Element	Agreed-upon procedures	Program audit	Agency-wide audit
1. Opinion on Financial Statements and Supplementary Schedule of Expenditures of Federal and State Awards (7.2.1)	NA	NA	
2. Opinion on the Financial Statement of a Program in Accordance with the Program Audit (7.2.2)	NA		
3. Report on Results of Agreed-upon Procedures Engagement (7.2.3)		NA	NA
4. Financial Statements of the Overall Agency (7.1.1)	NA	NA	
5. Report on Compliance with Requirements Applicable to the Program and on Internal Control Over Compliance Performed in Accordance with the Program Audit (7.2.4)	NA		NA
6. Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards and the Provider Agency Audit Guide (7.2.5)	NA	NA	

Report Element	Agreed-upon procedures	Program audit	Agency-wide audit
7. Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133 (7.2.6) (applicable only if the audit is also in accordance with OMB Circular A-133)	NA		
8. Schedule of Findings and Questioned Costs (7.2.7) (For Agreed-upon procedures engagements, findings are reported in the Report on Results of Agreed-upon Procedures Engagement (7.2.3))	NA		
9. Schedule of Prior-Year Findings (7.1.2)			
10. Corrective Action Plan (7.1.3)			
11. Schedule of Expenditures of Federal and State Awards (7.1.4)	NA		
12. Incorporated Group Home and Child Caring Institution Supplemental Schedule (7.1.5)	NA		
13. Reserve Supplemental Schedule (7.1.6)			
14. Additional Supplemental Schedules Required by Granting Agencies (7.1.7)			
15. Assurance the audit was performed in accordance with the *Provider Agency Audit Guide* (typically provided through reference to the *Guide* in the audit report)			

Section B – Identification of Audit Issues Using the Schedule of Findings and Questioned Costs (for program and agency-wide audits only)

Audit Issue	PAAG only	PAAG and A-133	Issue No. (See Section C)
A. The Summary of Auditor's Results, which must include:			
1. The type of report the auditor issued on the financial statements of the agency or of the program			
2. Where applicable a statement that reportable conditions in internal control were disclosed by the audit of the financial statements of the agency or of the program and whether any such conditions were material weaknesses			
3. A statement as to whether the audit disclosed any noncompliance which is material to the financial statements of the agency or of the program			
4. Where applicable a statement that reportable conditions in internal control over major program were disclosed by the audit and whether any such conditions were material weaknesses (A-133)	NA		
5. The type of report the auditor issued on compliance for major programs (A-133)	NA		
6. A statement as to whether the audit disclosed any audit findings which the auditor is required by report under section .510(a) of A-133	NA		
7. An identification of major programs (A-133)	NA		
8. The dollar threshold used to distinguish between Type A and Type B programs, as described in section .520(b) of A-133	NA		
9. A statement as to whether the auditor qualified as a low-risk auditee under section .530 of A-133	NA		
B. Findings related to the financial statements of the agency or of the program which are required to be reported in accordance with GAGAS			
C. Findings and questioned costs for federal awards which shall include audit findings as defined in section .510(a) of A-133	NA		

Audit Issue	PAAG only	PAAG and A-133	Issue No. (See Section C)
C. Other issues			
1. Does the auditor have substantial doubt as to the auditee's ability to continue as a going concern?			
2. Does the audit report show audit issues (i.e. material non- compliance, non-material non-compliance, questioned costs, material weakness, reportable condition, management letter comment, excess revenue or excess reserve) related to grants/contracts with funding agencies that require audits to be in accordance with the Provider Agency Audit Guide: Department of Health and Family Services Department of Workforce Development Department of Corrections Other funding agencies (list)			
3. Was a Management Letter or other document conveying audit comments issued as a result of this audit? (yes/no)			
4. Name and signature of partner			
5. Date of report			

Section C -- Resolution of Audit Issues

(Use a separate sheet for each audit issue affecting granting agency's programs.)

Issue Number: ___________________

Type of issue:

- ❑ Material weakness
- ❑ Reportable condition
- ❑ Management letter comment
- ❑ Material non-compliance
- ❑ Non-material non-compliance
- ❑ Other

Program(s) affected by the audit issue:

Description of the audit issue and the agency's response and/or corrective action plan:

Granting agency's resolution of audit issue:

1. Does the agency's response/corrective action plan adequately address the issue?
   - ❑ Yes.
   - ❑ No. If no, what else is needed?
     - ❑ Repayment of disallowed costs ($_______________).
     - ❑ Additional information from agency and/or auditor (describe):

2. What follow-up is needed to confirm implementation of the corrective action?
   - ❑ Rely on subsequent audit.
   - ❑ Request status report on corrective action in ____________ months.
   - ❑ Perform site visit.
   - ❑ Other (describe):

Appendix B – OMB Circular A-133 – pass through entity responsibilities

(The entire text of A-133 is online at www.whitehouse.gov/OMB/circulars/a133/a133.html)

§___.400 Responsibilities.
(d) Pass-through entity responsibilities. A pass-through entity shall perform the following for the Federal awards it makes:

(1) Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of Federal agency. When some of this information is not available, the pass-through entity shall provide the best information available to describe the Federal award.

(2) Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.

(3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

(4) Ensure that subrecipients expending $300,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.

(5) Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.

(6) Consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records.

(7) Require each subrecipient to permit the pass-through entity and auditors to have access to the records and financial statements as necessary for the pass-through entity to comply with this part.

§___.405 Management decision.
(a) General. The management decision shall clearly state whether or not the audit finding is sustained, the reasons for the decision, and the expected auditee action to repay disallowed costs, make financial adjustments, or take other action. If the auditee has not completed corrective action, a timetable for follow-up should be given. Prior to issuing the management decision, the Federal agency or pass-through entity may request additional information or documentation from the auditee, including a request for auditor assurance related to the documentation, as a way of mitigating disallowed costs. The management decision should describe any appeal process available to the auditee.

(b) Federal agency. As provided in §___.400(a)(7), the cognizant agency for audit shall be responsible for coordinating a management decision for audit findings that affect the programs of more than one Federal agency. As provided in §___.400(c)(5), a Federal awarding agency is responsible for issuing a management decision for findings that relate to Federal awards it makes to recipients. Alternate arrangements may be made on a case-by-case basis by agreement among the Federal agencies concerned.

(c) Pass-through entity. As provided in §___.400(d)(5), the pass-through entity shall be responsible for making the management decision for audit findings that relate to Federal awards it makes to subrecipients.

(d) Time requirements. The entity responsible for making the management decision shall do so within six months of receipt of the audit report. Corrective action should be initiated within six months after receipt of the audit report and proceed as rapidly as possible.

(e) Reference numbers. Management decisions shall include the reference numbers the auditor assigned to each audit finding in accordance with §___.510(c).

Appendix C – Excerpt from *State Single Audit Guidelines*

DHFS's instructions to auditors on what to look for in a county's purchase of service function

IV. PURCHASE OF SERVICE

Compliance Requirement

Section 46.036 of the Wisconsin Statutes establishes the standards for contracting for care and services purchased by a county social services department, a county department of public welfare, or a board established under s. 46.23, 51.42 or 51.437. Per section 20.002(13) these standards are also applicable to Indian Tribes.

Suggested Audit Procedures

- Test whether the county has contracts on file for purchase of services, where applicable, or a waiver from the Division of Community Services or the Division of Economic Support.
- Test whether the county has a system to monitor contract compliance, including whether the expenses were within the contract limits.

Compliance Requirement

Section 46.036(4)(c) requires each provider under contract to submit an annual certified financial and compliance audit report to the county.

Suggested Audit Procedures

- Test whether the county or the tribe has certified audit reports on file, where applicable, or a waiver from the Division-of Community Services or the Division of Economic Support.
- Test whether the county or the tribe has a system to monitor receipt of the audit reports, and to review and resolve the audit findings with the provider agency.
- Test whether the county or the tribe is in compliance with the terms of the vendor contract. Examples, while not all inclusive, include:

    1. Review the payments for services to assure that they are within the vendor contract limits.
    2. Review the billings to determine that units of service, if specified in the vendor contract, have been provided and that total payments are based on actual units of service provided.
    3. Review the vendor contract and audit report to verify that they are in compliance with the Department's Provider Agency Audit Guide.

Subrecipient Audit Reports in the Schedule of Findings and Questioned Costs

All subrecipient audit reports that have not been received and/or reviewed and resolved when the fieldwork is completed should be listed in the Schedule of Findings and Questioned Costs. If the deadline for receiving these audit reports had not yet passed at the end of fieldwork, no costs would be questioned. However, if the deadline for submission of subrecipient audit reports has passed, questioned costs equal to the payment made to the various subrecipients must be included in the Schedule of Findings and

Questioned Costs. At a minimum, the finding should include, for each audit report not received:

- The name of the subrecipient
- The payments made applicable to
- The contract period the Community Aids Reporting System (CARS) line number on which the related expenditures were reported DHFS
- The program title and identification number

As a part of the review and resolution process of the entity's Single Audit Report, DHFS will request an update on the status of any subrecipient audits indicated as not having been received and/or reviewed and resolved at the end of fieldwork.